



Audit Committee

Thursday 25th June 2020

2.00 pm

**A virtual meeting via Zoom Meeting
Software**

The following members are requested to attend this meeting:

Chairman: Martin Carnell
Vice-chairman: Mike Hewitson

Robin Bastable
Mike Best
Dave Bulmer

Malcolm Cavill
Brian Hamilton
Paul Maxwell

Robin Pailthorpe
Jeny Snell

Any members of the public wishing to address the meeting at Public Question Time need to email democracy@southsomerset.gov.uk by 9.00am Wednesday 24 June.

The meeting will be viewable online by selecting the committee meeting at:
https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA

For further information on the items to be discussed, please contact
democracy@southsomerset.gov.uk

This Agenda was issued on Wednesday 17 June 2020.

Alex Parmley, Chief Executive Officer

**This information is also available on our website
www.southsomerset.gov.uk and via the mod.gov app**

Information for the Public

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

Internal Audit Activity

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

External Audit Activity

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

Regulatory Framework

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

Financial Management and Accounts

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;

14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

Overall Governance

16. The Audit Committee can request of the Section 151 Officer, the Monitoring Officer, or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

Members questions on reports prior to the Meeting

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

Audit Committee

Meetings of the Audit Committee are usually held bi-monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently. However during the coronavirus pandemic these meetings will be held remotely via Zoom video-conferencing and the starting time may vary.

For more details on the regulations regarding remote/virtual meetings please see the Local Authorities and Police and Panels (Coronavirus) (Flexibility of Local Authorities and Police and Crime Panel Meetings (England and Wales) Regulations 2020 as part of the Coronavirus Act 2020.

Agendas and minutes of this committee are published on the Council's website at <http://modgov.southsomerset.gov.uk/ieDocHome.aspx?bcr=1>

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device, install, and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

Public participation at meetings (held via Zoom)

Public question time

We recognise that these are challenging times but we still value the public's contribution to our virtual meetings.

If you would like to address the virtual meeting during Public Question Time, please email democracy@southsomerset.gov.uk by 9.00am on Wednesday 24 June 2020. When you have

registered, the Chairman will invite you to speak at the appropriate time during the virtual meeting.

The period allowed for participation in Public Question Time shall not exceed 15 minutes except with the consent of the Chairman and members of the Committee. Each individual speaker shall be restricted to a total of three minutes.

This meeting will be streamed online via YouTube at:

https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA

Virtual meeting etiquette:

- Consider joining the meeting early to ensure your technology is working correctly.
- Please note that we will mute all public attendees to minimise background noise. If you have registered to speak during the virtual meeting, the Chairman or Administrator will un-mute your microphone at the appropriate time. We also respectfully request that you turn off video cameras until asked to speak.
- Each individual speaker shall be restricted to a total of three minutes.
- When speaking, keep your points clear and concise.
- Please speak clearly – the Councillors are interested in your comments.

Recording and photography at council meetings

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

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<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

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Audit Committee

Thursday 25 June 2020

Agenda

Preliminary Items

1. Minutes

To approve as a correct record the minutes of the previous meeting held on 14 May 2020.

2. Apologies for absence

3. Declarations of Interest

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

4. Public question time

5. Date of next meeting

Councillors are requested to note that the next Audit Committee meeting is scheduled for 10.00am on 30 July 2020, and likely to be held virtually using Zoom.

Items for Discussion

6. Internal Audit Outturn Report 2019/20 (Pages 6 - 29)

7. Internal Audit Annual Report and Opinion 2019/20 (Pages 30 - 49)

8. 2019/20 Treasury Management Activity Report (Pages 50 - 68)

9. Audit Committee Forward Plan (Pages 69 - 70)

Agenda Item 6

Internal Audit Outturn Report 2019/20

Head of Service: David Hill, Chief Executive – SWAP
Lead Officer: Alastair Woodland - Assistant Director
Contact Details: alastair.woodland@swapaudit.co.uk

Purpose of the Report

To update members on the Internal Audit Plan 2019-20 Outturn and bring to their attention any significant findings identified through our work. The report aims to provide assurance to the Audit Committee regarding the effectiveness of the control environment operated by, and on behalf of, the council and highlight any significant matters to be addressed by management.

Recommendation

Members are asked to note progress made in delivery of the 2019/20 internal audit plan and the significant findings since the previous update.

Background

The Internal Audit function plays a central role in corporate governance by providing assurance to the Audit Committee over the effectiveness of internal controls, governance and risk management. The 2019-20 Annual Audit Plan was approved by the Audit Committee at its March 2019 meeting and is to provide independent and objective assurance on SSDC's Internal Control Environment and this work will support the Annual Governance Statement.

Financial Implications

There are no financial implications associated with these recommendations.

Background Papers: None

South Somerset District Council

Report of Internal Audit Activity

2019-20 Outturn Report June 2020

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The contacts at SWAP in connection with this report are:

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Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter which was approved by the Audit Committee at its meeting in March 2019.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Governance Audits
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Leadership Team. The 2019-20 Audit Plan was reported to this Committee and approved at its meeting in March 2019.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Internal Audit Plan Outturn 2019/20

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.

Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2019/20. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed on **Appendix A** of this document.

The following table summarised Audits finalised since the previous update in January 2020:

Audit Area	Quarter	Status	Opinion
Payroll	2	Final	Substantial
Financial Resilience/Contract Monitoring	3	Final	Follow Up
Treasury Management and Bank Reconciliations	3	Final	Reasonable
Council Tax & NNDR	3	Final	Partial
Housing Benefits	3	Final	Partial
Creditors	3	Final	Reasonable
Debtors	3	Final	Reasonable
Main Accounting	3	Final	Reasonable
Information Governance - GDPR	3	Final	Partial
Benefits Realisation	4	Final	Advisory
Performance Indicators Data Quality	4	Final	Partial

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.

Internal Audit Work Programme Continued

All audits from the 2019-20 plan have been completed to final or Draft report stage with the exception of the Wide Area Network (WAN) review. This work has not been started due to changes and pressure on the ICT Resource and the impact of the Covid-19 pandemic.

Partial Assurance / No Assurance Audits

As agreed with this Committee where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified. Since the previous update there is four 'Partial Assurance' reviews that I need to bring to your attention, these being Council Tax and NNDR, Housing Benefits, Information Governance and Performance Management. Further details for each audit can be found in **Appendix C**.

'High' Corporate Risk

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place we re-evaluate the risk, based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention. Since our previous update there are two 'High' risks that I need to bring to your attention from our work.

Council Tax and NNDR: *The Council does not collect all Council Tax and Business Rates due as a result of errors, omissions or fraud leading to financial loss or reputational damage.*

Information Governance: *An increased risk of breaches in data protection and other critical information management issues, which can lead to an investigation by the Information Commissioner Office, fines and significant reputational damage.*

Internal Audit Plan Outturn 2019/20

SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards as well as relevant partner key contacts.

Plan Progress Performance

SWAP now provides the Internal Audit service for 18 Councils, 3 Police Authorities, 3 Office of Police and Crime Commissioners and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2019-20 year are as follows;

Performance Target	Target Year end	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Not Started</p>	>90%	100%
<p><u>Quality of Audit Work*</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%	99.6%
<p><u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%	98.6%

*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

We keep our audit plans under regular review so as to ensure that we audit the right things at the right time.

Approved Changes to the Audit Plan

The audit plan for 2019/20 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to South Somerset District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Manager and the Section 151 Officer.

Since the previous update in January 2020 there is one changes to the audit plan. The Wide Area Network (WAN) review could not start due to the timing with significant changes within the ICT department coupled with the impact of the Covid-19 pandemic. The risks relevant to this area will be included in the on-going evaluation of priority areas for the 2020-21 audit plan.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”:

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion/Advisory

Audit Framework Definitions

Control Assurance Definitions

Substantial	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advisory – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 1: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Findings that require attention.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
FINAL									
Annual Accounts Certification	Boden Mill	1	Final	Advisory	0	0	0	0	
Annual Accounts Certification	Yeovil Cemetery & Crematorium Accounts	1	Final	Advisory	0	0	0	0	
Grant/Certification	Growth Deal Capital Expenditure (YIC Phase 2)	1	Final	Advisory	0	0	0	0	
IT Audit	Data Centre - Physical and Environmental Controls	1	Final	Reasonable	9	0	0	9	
Operational	Civil Contingencies	1	Final	Reasonable	5	0	1	4	
Operational	Affordable Housing Programme	2	Final	Reasonable	2	0	0	2	
Follow Up	Lone Working Arrangements	2	Final	Advisory	5	0	4	1	
Governance, Fraud and Corruption	SSDC Opium Power	2	Final	Advisory	4	0	4	0	
Governance, Fraud and Corruption	Creating New Companies	2	Final	Reasonable	4	0	0	4	
Operational	Benefits Realisation Position Statement	2	Final	Advisory	-	-	-	-	
Key Financial Controls	Payroll	2	Final	Substantial	2	-	-	2	
Follow Up	Financial Resilience/Contract Monitoring	3	Final	Follow Up	0	0	0	0	
Key Financial Controls	Treasury Management and Bank Reconciliations	3	Final	Reasonable	4	-	3	1	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Key Financial Controls	Council Tax & NNDR	3	Final	Partial	8	-	4	4	See Appendix C
Key Financial Controls	Housing Benefits	3	Final	Partial	6	-	3	3	See Appendix C
Key Financial Controls	Creditors	3	Final	Reasonable	2	-	1	1	
Key Financial Controls	Debtors	3	Final	Reasonable	3	-	-	3	
Key Financial Controls	Main Accounting	3	Final	Reasonable	3	-	1	2	
Cross cutting, Governance, Fraud and Corruption	Information Governance - GDPR	3	Final	Partial	8	1	4	3	See Appendix C
Operational	Benefits Realisation	4	Final	Advisory	-	-	-	-	
Operational	Performance Indicators Data Quality	4	Final	Partial	3	-	2	1	See Appendix C
Draft									
Governance, Fraud and Corruption	Risk Strategy & TEN Risk Management	4	Draft	Advisory	5	-	1	4	
Deferred/Removed									
Transformation	Income Generation - service improvements	4				Move to quarter 1 of the 2020-21 Audit Plan to accommodate the work undertaken on SSDC Opium Power Ltd.			
IT Audit	Wide Area Network (WAN)	4				Unable to resource review by SWAP and SSDC due to Covid-19 and Digital Strategy			

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Audit Assignments completed since the January 2020 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Summary of Audit Findings and High Priority Service Finding

The following information provides a brief summary of each audit review finalised since the last Committee update in January 2020. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the January 2020 update there are four Partial Assurance audit opinions that I need to bring to your attention.

Governance, Fraud and Corruption Audits

The Governance, Fraud and Corruption Audit process focuses primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will enable SWAP to provide management with assurance that key controls are in place. SWAP will use the findings of these reviews to support the assurance that is required as part of the Council’s Annual Governance Statement.

Information Governance GDPR – Partial Assurance

While the Council has produced and published a Corporate Privacy Notice which covers the majority of the requirements under GDPR there are gaps within it as it cannot cover all the variances in legal basis and reasons for processing data that occur across the Councils different service areas. While some service areas have their own Privacy notice to cover these details others are just relying on the corporate notice which means that the data subject is not provided with all the required information.

It was also identified that where a data subject engages with the Council through an external portal they are not provided with or directed to any version of a privacy notice before or during the completion of the form.

Audit Assignments completed since the January 2020 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Governance, Fraud and Corruption Audits Continued

This was the case for planning where applications are submitted through a planning portal which can be accessed without going through the Councils website.

Training has been rolled out to all officers and members but 26% of them have not completed the mandatory training. Without staff being trained, there is a risk not all staff will not be fully aware of their requirements which increases the risk of non-compliance with legislation and potential data breach.

Although there is evidence that the Information Asset Register has been created and updated, it is still not a complete document which limits the Council’s oversight on where data is stored and how it is managed. Additionally, the ability to remove data from systems once the retention period has expired is also a weakness that needs to be addressed. Some services have identified their retention periods but the process or method of identifying the data once it has expired and removing it from the system has not been resolved. This means that data is being held longer than it is required and potentially in breach of Data Protection Legislation.

While the likelihood of the risk identified occurring has been slightly reduced via training and some of the processes implemented, the Council is not yet fully compliant and therefore the impact of the risk occurring would still be high which results in a high risk assessment for this audit.

Priority 1 and 2 recommendations listed below:

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Information Governance GDPR					
1	The Information Asset register has not been fully completed for all service areas.	Council does not hold all required information on services for GDPR, if unable to provide on request could lead to reputational and financial damage.	We recommend that the DPO ensures the Information Asset Register is fully updated and a review process is introduced to ensure it stays up to date and accurate.	DPO to review (with Case Officer support) the register and put review process in place	31 st May 2020
2	Privacy notices are not in place for all services including planning and where they are, don't clearly detail the legal basis for processing data or the specified purpose.	Council is not complying with GDPR and could incur legal reputational and financial damage.	We recommend that the DPO ensures that each service area has a privacy policy introduced and that the privacy notices are updated to clearly state the legal basis for processing data and the specified purpose of processing.	All service areas to have a privacy policy in place.	30 th June 2020
3	Process for identifying and removing data once the retention period has expired is not in place.	The Council holds personal data longer than is required resulting in financial penalty and reputational damage.	We recommend that the DPO ensures a retention policy is drafted and processes are put in place for all services and ensures data is only retained during the retention period. Data held outside of the retention period should be identified and appropriate action taken. This data should be recorded within the corporate retention schedule which should be available to staff as required.	Retention schedule to be reviewed in conjunction with Legal, communicated to all areas and placed on portal.	30 th Sept 2020

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
4	Training Courses are not being completed by all officers and members.	Officers and Members are not sufficiently trained to identify and prevent data security issues leading to financial penalty and reputational damage	We recommend that the DPO ensures that following reminders being sent that any outstanding training is reported to SLT if not completed within three months of the initial reminder.	In addition to the existing process of DPO sending reminders, Managers/Team Leaders will be able to see which members of their teams have completed (or not) their training via the Learning Management System. We agree to update SLT where training is not being completed following reminders.	30 th June 2020
5	Data protection policy is not easily available to staff or the public.	Staff and the public are unaware of the Councils Data Protection policy and their responsibilities leading to mismanagement of data potential breach leading to reputational damage failure to comply with legislation and financial damage.	We recommend that the Specialist performance ensures that the Data Protection Policy is published on the website and portal.	Data Protection Policy to be published on portal and SSDC website.	22 nd May 2020

Audit Assignments completed since the January 2020 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

Key Financial Controls

Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.

Housing Benefits – Partial Assurance

During our audit we found that not all new claims and changes in circumstances were being processed within the required timescales which is also shown within the Council’s performance reports. Trend data has shown that more new claims are being processed within the targets set from October 2019 and a Recovery Plan is in place, but at the point of testing it was unclear whether the actual targets will be met and sustained within a reasonable timescale.

We also found that between April and September 2019 not all exception reports were being reviewed within the required timescales. While the required number of quality checks had been carried out between April and October 2019, this was because a significant number had been completed in June and July 2019; an insufficient number had been completed in the remaining months.

We also identified that there appears to be too many officers with system administrator access (First Development Job Role) and that the Northgate password complexity does not meet the requirements of the IT Access Policy, which has not been reviewed since August 2009.

To sum up we did not identify any control failures related to the inaccuracy of processing resulting from errors, omissions or fraud but the control failures detailed above increases the risk of this happening and therefore on this occasion we can only offer partial assurance.

Priority 1 and 2 recommendations listed below:



No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Housing Benefit					
1	System Administrator access to Northgate appears to be disproportionate to some roles being performed.	If officers are afforded access over and above the business need there is a risk of financial, legal and reputational damage.	We recommend the Lead Specialist – Vulnerable Customers ensures that system access to Northgate and particularly the First Development Job Role, is promptly reviewed and rationalised to those who need it to carry out system administrator roles.	We will review access as suggested and remove access at this level where it is found not to be appropriate for the job role	29 Feb 2020
2	Substantive testing found that some benefit claims had not been processed inside of the prescribed timescales.	Without an adequately resourced Recovery Plan Housing Benefit claims may not get processed in a timely manner and claimants’ rent may not get paid on time, which puts them at an increased risk of eviction. This exposes the Council to reputational, legal and financial damage.	We recommend that the Lead Specialist – Vulnerable Customers ensures that: <ul style="list-style-type: none"> • The Recovery Plan is adequately resourced to ensure that the current processing targets for new claims and changes of circumstances are achievable and sustained. • Should actual performance not achieve targeted performance by the end of the financial year the situation is discussed with senior management to ascertain whether resourcing needs to be reconsidered or targets revised. 	Performance for new claims improved to an average of 27 days in November, 21 days in December and 26 days in January (slightly longer due to Christmas closedown). Average time to process changes have been 10 days in Nov, 5 days in December and 5 days in January (against a target of 7 days). We continue to monitor performance and set work priorities for improvement. Our performance is also reported monthly to our director and quarterly to members. We will raise resources or performance requirement with senior management if performance improvement is not maintained.	15 May 2020

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No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
3	Quality checks are completed on an ad hoc basis.	If the requisite number of quality checks are not undertaken each month error patterns may go unnoticed, but it may also decrease the checker's efficiency on other tasks.	We recommend that the Lead Specialist - Vulnerable Customers ensures that the requisite number of quality checks are undertaken each month so that by year end four percent of the caseload has been checked.	Since the beginning of November, the checks have been regularised and While we accept that in the early part of the year few checks were completed, this has been explained. Since June we have increased the volume of checks to catch up and overall, the 4% was exceeded. Our aim is to carry out a 10% check of decisions made which exceeds the best practice level of 4%. We do this as it reduces the risk of loss of Housing Benefit subsidy and inaccuracy of award to the customer. We will monitor that checks remain on track at a monthly service meeting commencing March.	31 Mar 2020

Audit Assignments completed since the January 2020 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

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Key Financial Controls Continued

Council Tax and NNDR – Partial Assurance

The overall performance of the service has dropped in the current financial year from previous years. Council tax has dropped from 56.22% to 55.56% at the quarter 2 report point, and NNDR has dropped from 58.27% to 56.29%. Since the previous audit there has been a reduction in staff in this area and a backlog of work has built up. The Council is bringing this backlog down by outsourcing the backlogged work items to Capacity Grid to allow the current staff to keep on top of the new work being received. It has also reduced the amount of checking that can be carried out on the work completed.

The following weaknesses have been identified as part of our review:

- Quality checking has not been completed for long standing officers meaning errors or potential frauds are not being identified.
- Discounts and Exemptions have not been reviewed to ensure they are still relevant.
- Suppressed accounts are only reviewed at year end so may remain in place for longer than necessary.
- Completion reports are not being actioned and sent to the Valuation officer to confirm if properties are correctly banded.
- Staff performance is not being monitored to ensure they are meeting the service standards that have been set.
- Recovery action was not started for the first two months of the year

Some additional weaknesses were also identified in the year end billing process. No checks were completed on the NDR parameters when they were set up and there was no reconciliation completed to confirm all bills were sent out by the print service. There was also concerns around the internal approval of write offs before they are approved by the S151 officer some were not approved by a second officer or approved by the same officer. Performance monitoring is undertaken quarterly on four key indicators, with all four behind target at the end of quarter two and only 1 shows improvement on the previous quarter’s results.

Priority 1 and 2 recommendations listed below:

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Council Tax and NNDR					
1	The CTX & NDR system and Valuation Office are not updated promptly following commencement and completion reports.	The system is not up to date with relevant information leading to properties incorrectly banded and billed at a lower rate resulting in a loss of income.	We recommend that the Specialist ensures that the system is updated promptly when completion reports are received, and that referrals to the Valuation Office be completed in a timely manner and that a review process be implemented to maintain quality assurance.	Agreed – Banding only changes once a property is sold but reports need to be submitted in a timely manner to ensure this is processed on change of ownership as if it is not on the system it will not be revalued at the point of sale. We have identified the officers we want to pick this up and will liaise with the People Manager to implement.	31 May 2020
2	There is no quality checking undertaken on amendments made on the system.	Bills are amended incorrectly or fraudulently, resulting in financial loss and reputational damage.	We recommend that the Specialist ensures that quality checking of a sample of amendments be implemented on a monthly basis to ensure that amendments made are appropriate and correct.	Can check via the weekly billing runs and fix issues identified before the bill is sent out. All material changes lead to a new bill being produced so this will allow them to be reviewed.	1 April 2020

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No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
3	There is no periodic review of discounts and exemptions & evidence is not retained for some discounts/exemptions.	Financial loss and reputational damage due to discounts/exemptions being applied incorrectly.	We recommend that the Specialist ensures that periodic review of discounts and exemptions be undertaken, in order to ensure that discounts and exemptions do not remain in place when no longer applicable.	Agreed – need to get programme in place. Date for programme to be in place. Reviews will follow from the plan.	31 May 2020
4	No debt recovery undertaken for the first two months of the year and recovery is behind target.	Debts are not recovered resulting in financial loss and failure to meet the budget.	We recommend that the Specialist ensures that: <ul style="list-style-type: none"> • The Debt Recovery timetable is adequately resourced to ensure that notices are not falling behind, and cases are progressed through the recovery process. 	Agreed - Up to date now with pre – summons and attended all court dates they can. Collection rate is coming up. Tried to put some resource into recovery. After billing focus on debt chasing.	31 Jul 2020

Audit Assignments completed since the January 2020 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

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Operational Audits

Operational audits are a detailed evaluation of a Service’s control environment. A risk matrix is devised, and controls are tested that mitigate those risks. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Performance Management – Partial Assurance

We are awarding performance management a partial assurance opinion as although the new 2019/20 report layout has been designed to clearly show and understand the performance of the Council, there is a concern that targets to encourage service improvement are not identified where services are performing below the agreed target. At the 31 December 2019, the Council’s performance report showed 36% of the performance measures were delivering below target. Without an effective system in place to drive improvement, there is a continued risk that these services will not be performing at the required standard and the Council objectives may not be met. This was further reinforced when we investigated five different service areas who were underperforming to see if performance has been improved. Three of the service areas reviewed saw their performance reduce – demonstrating the need for greater transparency and scrutiny on the actions being undertaken. As a result of this we have assessed this as a medium corporate risk.

In addition, there is no quality control process undertaken by the Performance Team to confirm the accuracy of the data. We identified three measures from one service which we were unable to confirm to source data due to two separate systems being used which produced different results. There is also no quality assurance process in place and figures input are based on trust that managers are providing accurate performance information regarding their service area. A quality assurance process would mitigate against potential inaccurate KPIs being included in the Corporate Performance report.

Priority 1 and 2 recommendations listed below:

No	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
Performance Management					
1	Three performance indicators out of ten could not be verified to source data. There is no quality assurance process in place to mitigate against in accurate KPIs being submitted.	Inaccurate performance data does not identify underperformance leading to under delivery of service provision and failure to achieve council objectives.	We recommend that the Specialist Performance introduces a quality control process into the quarterly reporting process. This should include: <ul style="list-style-type: none"> Requesting that Officers submitting figures supply the reports to enable the performance team to confirm they match the email Periodic reviews of the run process for producing the measures to confirm appropriate 	Quality control process to be put in place for each reporting area and spot checks to be made during the quarterly report collation.	31 st July 2020
2	No targets are being set or actions agreed to address underperforming measures.	Lack of defined actions for targets could result in continued poor performance service leading to reputational risk to the Council.	We recommend that the Specialist-Performance ensures that there are targets set for underperforming measures in the report and that actions are agreed on how performance will be improved.	Targets and actions to be put in place from Q1 2020/21 for all areas.	31 st July 2020

Agenda Item 7

Internal Audit Annual Report and Opinion 2019/20

Head of Service: David Hill, Chief Executive - SWAP
Lead Officer: Alastair Woodland - Assistant Director
Contact Details: Alastair.Woodland@southwestaudit.co.uk

Purpose of the Report

This report provides an update on the position of the Internal Audit Plan at the end of 2019/20 and also provides Internal Audit's overall 'Opinion' on the systems of internal control at South Somerset District Council.

Recommendation

Members are asked to note the Annual Opinion on the effectiveness of the internal control environment in the delivery of SSDC objectives.

Background

The Audit Committee agreed the original 2019/20 Internal Audit Plan at its March 2019 meeting, with progress updates provided during the year.

This report summarises the work of the Council's Internal Audit Service and provides:

- A summary of the key risks that were identified during the 2019-20 financial year.
- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

The Audit Opinion for 2019/20 is contained within the attached SWAP Internal Audit Annual Opinion Report.



SWAP

SOUTH WEST AUDIT PARTNERSHIP

Delivering Audit Excellence

South Somerset District Council

Report of Internal Audit Activity

Annual Opinion Report 2019/20

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Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives.
 - the effectiveness of risk management processes.
 - The potential for the occurrence of fraud and how the organisation manages fraud risk.
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.



Summary

Three lines of defence

To ensure the effectiveness of an organisation's risk management framework, the Audit Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

- the first line of defence – functions that own and manage risk.
- the second line of defence – functions that oversee or specialise in risk management, compliance.
- the third line of defence – functions that provide independent assurance.



Background

The Internal Audit service for South Somerset District Council is provided by SWAP Internal Audit Services. The Team's work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of our work against the 2019/20 Internal Audit Plan. The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

The Three Lines of Defence Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

I have considered the balance of audit work in 2019/20 and the assurance levels provided, profile of each audit and outcomes together with the response from Senior Management and offer '**Reasonable Assurance**' in respect of the areas reviewed during the year.

This Annual Report gives the opinion of the Assistant Director (Head of Internal Audit) on the adequacy and effectiveness of governance and risk management and control within South Somerset District Council. Internal Audit has not reviewed all risks and assurances relating to South Somerset District Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix B**, and as such it is one source of assurance on the adequacy of the internal control environment.

The Annual Opinion is made based on the following sources of information:

- Completed audits (Final & Draft - during the year 2019/20) which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regs.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Significant/material risk where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, regulator reports etc.

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion Continued

Opinions are a balanced reflection not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources (including advice/ consultancy work and the assurance mapping records the team maintain). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

In the revised 2019-20 audit plan for South Somerset District Council there were 22 reviews to be delivered. In agreement with management, and previously reported to this Committee, some reviews were 'exchanged' or 'removed' as the need to respond to new and emerging risks was identified. Change can be seen from **Appendix B**.

Out of the 22 revised reviews to be delivered, all are at report stage. Of those at final report stage, four (18%) received Partial Assurance. I am encouraged by the management response and readiness to accept and address the matters raised in audit reports. It is also worth noting the number of 'Advisory' audits during 2019-20. Given the level of change within the Authority, Internal Audit has a role to play in being the 'Trusted Advisor', and as such we have been involved in a number of key areas of organisational change and risk management. Although no opinion is offered with this work, the work is used to assist in forming our overall opinion on the adequacy of internal control, governance and risk management.

COVID 19 has disrupted the delivery of the 2019-20 Internal Audit Plan in the final few weeks of the financial year but I do not consider this impact significant on our work when forming the 2019-20 Annual Internal Audit Opinion. It is recognised emergency measures often bypassing standard control have been implemented but this will have a greater impact on 2020-21.

Summary of Audit Work 2019/20

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Transformation
- Grant/Certification
- Follow-up



Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits agreed for inclusion in the Annual Audit Plan 2019-20 and the final outturn for the financial year. In total, 22 will be delivered. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Of the 22 reviews in the revised 2019-20 audit plan, they are broken down as follows:

Type of audit	2019-20 original plan	201-20 revised plan
• Operational Audits	5	5
• Key Control	7	7
• Governance, Fraud & Corruption	3	4
• Information Systems	2	1
• Grant/Certification	3	3
• Transformation	1	0
• Follow Up	2	2
• TOTAL	23	22

As would be expected some audits were 'exchanged' or 'removed' as the need to respond to changes and emerging risks that arise during the year. The one Audit not delivered in 2019-20 was the Wide Area Network (WAN) review due to service changes and Covid-19.

Definitions of Corporate Risk

High Risk

Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Medium Risk

Issues which should be addressed by management in their areas of responsibility.

Low Risk

Issues of a minor nature or best practice where some improvement can be made.



Significant Corporate Risks & Partial Assurance Audits

We provide a definition of the three Risk Levels applied within audit reports under **Appendix A**. For those audits which have reached report stage through the year, we have assessed the following risks as 'High'.

Two risks were assessed as high.

Review/Risks	Auditors Assessment
<p>Council Tax and NNDR: <i>The Council does not collect all Council Tax and Business Rates due as a result of errors, omissions or fraud leading to financial loss or reputational damage.</i></p>	<p>High</p>
<p>Information Governance GDPR: <i>An increased risk of breaches in data protection and other critical information management issues, which can lead to an investigation by the Information Commissioner Office, fines and significant reputational damage.</i></p>	<p>High</p>

Summary of Partial Assurance Audits

The following audits received a Partial assurance opinion in respect of their control environments in 2019/20.

Assurance Definitions

Partial Assurance - In relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.



Significant Corporate Risks & Partial Assurance Audits Continued

Audit Name	Risk Rating	Priority Findings		
		1	2	3
Council Tax & NNDR	High	-	4	4
Housing Benefits	Medium	-	3	3
Information Governance - GDPR	High	1	4	3
Performance Indicators Data Quality	Medium	-	2	1

Note all these audits have been reported throughout 2019-20 to the Audit Committee.

Summary of Audit Work 2019/20

SWAP Performance - Summary of Audit Opinions

At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition":

- Substantial
- Reasonable
- Partial
- No Assurance

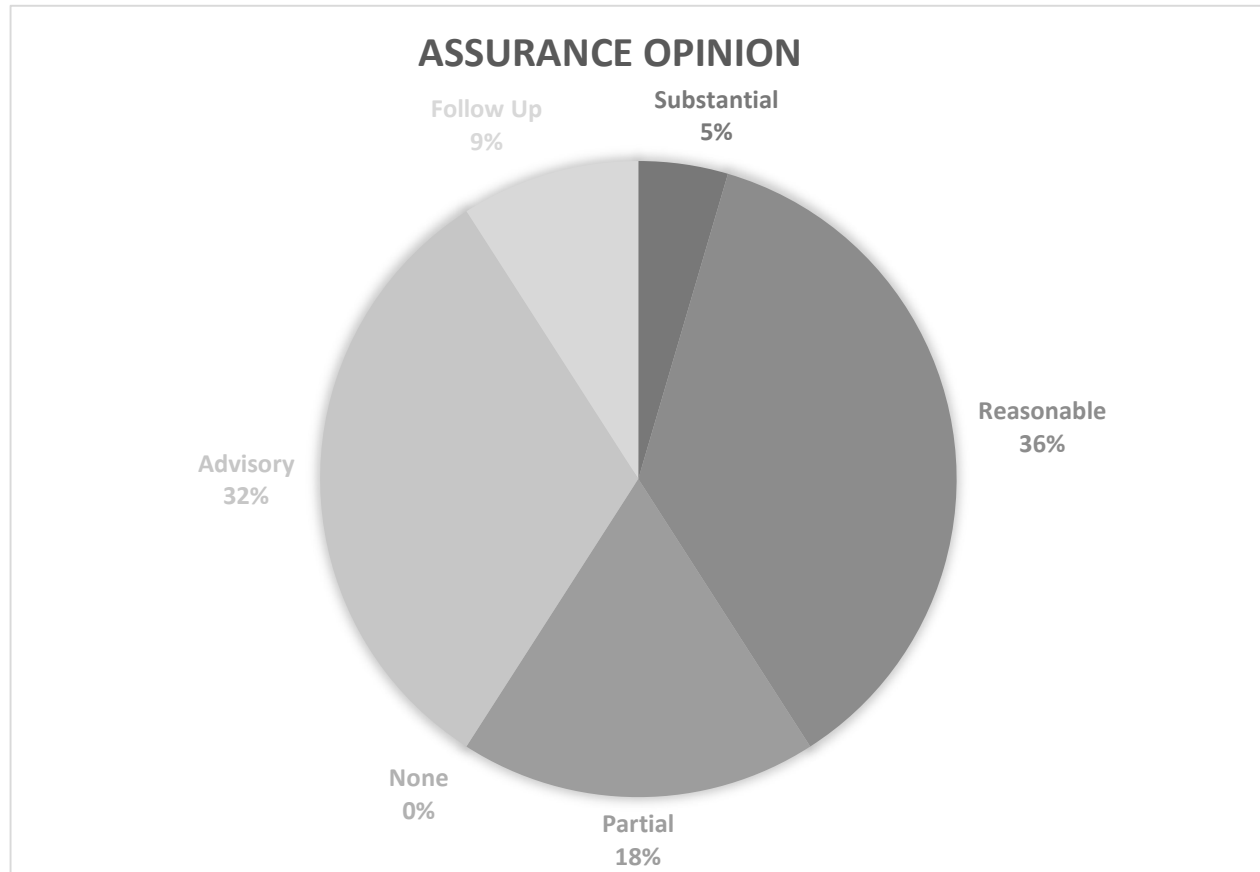
We also undertake 'Advisory / Non-Opinion' work on a consultancy basis where we have been asked to look at a specific area of potential concern.

Where we follow up on a previous adverse audit opinion the opinion is stated as 'follow up'.



Summary of Audit Opinion

Taking only the finalised reviews into account, the breakdown is summarised below. Definitions for each assurance category can be found in [Appendix A](#).



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Summary of Audit Work 2019/20

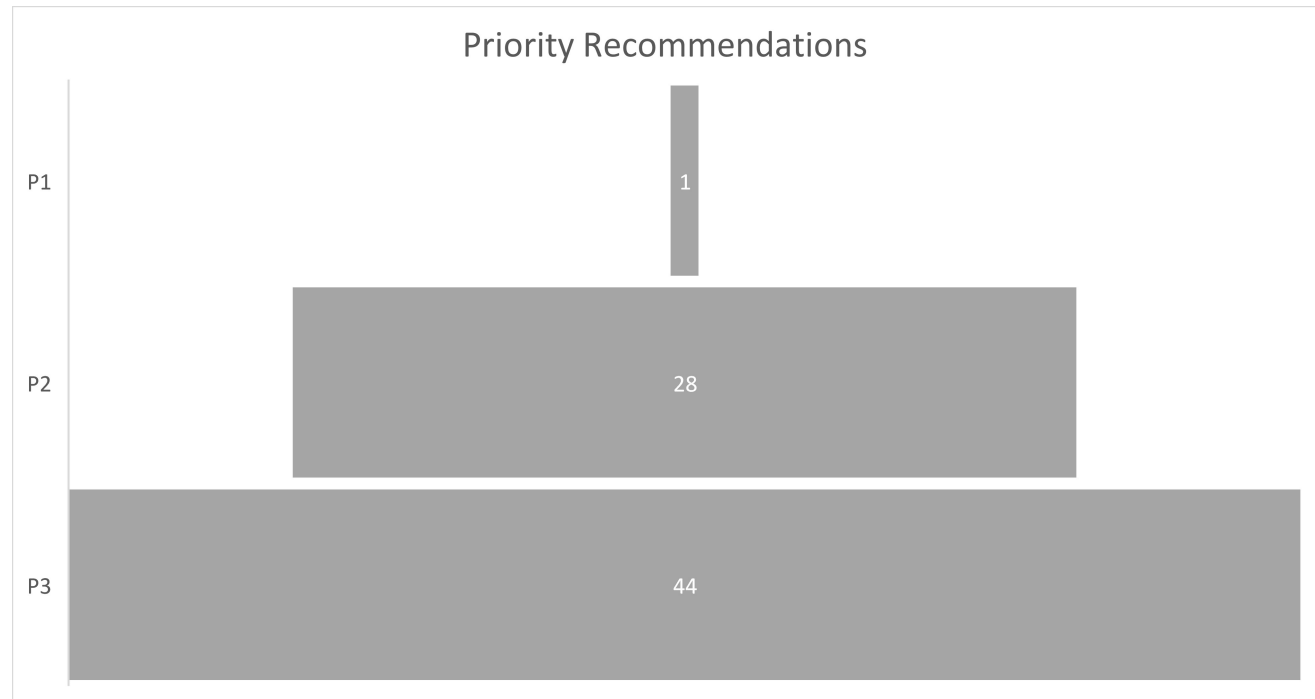
SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 1 being areas of major concern requiring immediate corrective action to 3 being minor or administrative concerns.



Priority Actions

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. Therefore, recommendations are assessed as to how important they are to the scope of the area audited. Priority 1 recommendations being more important than priority 3. All recommendations as currently contained in **Appendix B** are summarised below.



Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to audits undertaken in [Appendix B](#), where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where SSDC has requested or participated in enabling us to produce benchmarking reports across the partnership:

- **Fraud Bulletins** – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- **Partners Newsletters** – We produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies. We have increased the frequency of our newsflash to weekly during Covid-19 to provide relevant information.
- **An Internal Audit View** – These are quarterly newsletters where SWAP and other Local Authority Audit Partnerships convey key audit matters that Local Authorities should be aware.
- **Responsiveness** - we adapt our audit plans to address emerging risks and areas requiring assurance to management, such as the Transformation Lessons learned review and responding to the whistleblowing allegation.

Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value continued

- **Benchmarking and best practice** – we share best practice from our partners wherever possible and undertake benchmarking exercises in a number of audits.
- **Data Analytics** – We are increasing the use of data analytics across all audits to provide a greater level of assurance and insight to trends and themes
- **Procurement threshold** – Provided comparison on the limits set for when quotations and tenders need to be completed across the SWAP partners.
- **Supplier Resilience** – compared the approach to managing the risk posed by supplier failure.
- **Lone Working Arrangements** – Compared the approach to managing lone working arrangements and identifying best practice.

SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards as well as relevant partner key contacts.



SWAP Performance

SWAP now provides the Internal Audit service for 18 Councils, 3 Police Authorities, 3 Office of Police and Crime Commissioners and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2019-20 year are as follows;

Performance Target	Target Year end	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Not Started</p>	>90%	100%
<p><u>Quality of Audit Work*</u> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%	99.6%
<p><u>Outcomes from Audit Work</u> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%	98.6%

*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).



SWAP Performance

SWAP's work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm conformance to the required standards. SWAP was recently externally assessed in February 2020 and confirmed that we 'Generally Conform' to the standards.

Attribute Standard 1300 of the IPPF requires heads of internal audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues that the programme must include both internal and external assessments for improvement. Following our external assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to achieve, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our agreed actions.



At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”:

- Substantial
- Reasonable
- Partial
- No Assurance



Audit Framework Definitions

Control Assurance Definitions

Substantial	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advice – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 1: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of Senior Management and the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
FINAL									
Annual Accounts Certification	Boden Mill	1	Final	Advisory	0	0	0	0	
Annual Accounts Certification	Yeovil Cemetery & Crematorium Accounts	1	Final	Advisory	0	0	0	0	
Grant/Certification	Growth Deal Capital Expenditure (YIC Phase 2)	1	Final	Advisory	0	0	0	0	
IT Audit	Data Centre - Physical and Environmental Controls	1	Final	Reasonable	9	0	0	9	
Operational	Civil Contingencies	1	Final	Reasonable	5	0	1	4	
Operational	Affordable Housing Programme	2	Final	Reasonable	2	0	0	2	
Follow Up	Lone Working Arrangements	2	Final	Advisory	5	0	4	1	
Governance, Fraud and Corruption	SSDC Opium Power	2	Final	Advisory	4	0	4	0	
Governance, Fraud and Corruption	Creating New Companies	2	Final	Reasonable	4	0	0	4	
Operational	Benefits Realisation Position Statement	2	Final	Advisory	-	-	-	-	
Key Financial Controls	Payroll	2	Final	Substantial	2	-	-	2	
Follow Up	Financial Resilience/Contract Monitoring	3	Final	Follow Up	0	0	0	0	
Key Financial Controls	Treasury Management and Bank Reconciliations	3	Final	Reasonable	4	-	3	1	

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Minor			Comments
						Recommendation			
						1	2	3	
Key Financial Controls	Council Tax & NNDR	3	Final	Partial	8	-	4	4	
Key Financial Controls	Housing Benefits	3	Final	Partial	6	-	3	3	
Key Financial Controls	Creditors	3	Final	Reasonable	2	-	1	1	
Key Financial Controls	Debtors	3	Final	Reasonable	3	-	-	3	
Key Financial Controls	Main Accounting	3	Final	Reasonable	3	-	1	2	
Operational	Benefits Realisation	4	Final	Advisory	-	-	-	-	
Cross cutting, Governance, Fraud and Corruption	Information Governance - GDPR	3	Final	Partial	8	1	4	3	
Operational	Performance Indicators Data Quality	4	Final	Partial	3	-	2	1	
DRAFT									
Governance, Fraud and Corruption	Risk Strategy & TEN Risk Management	4	Draft	Advisory	4	-	1	3	
Deferred/Removed									
Transformation	Income Generation - service improvements	4				Move to quarter 1 of the 2020-21 Audit Plan to accommodate the work undertaken on SSDC Opium Power Ltd.			
IT Audit	Wide Area Network (WAN)	4				Unable to resource review by SWAP and SSDC due to Covid-19 and Digital Strategy			

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Agenda Item 8

2019/20 Treasury Management Activity Report

Portfolio Holder: Cll Peter Seib, Finance and Legal Services
Director: Nicola Hix, Support Services
S151 Officer: Jo Nacey
Lead Officer: Paul Matravers, Specialist - Finance
Contact Details: paul.matravers@southsomerset.gov.uk or (01935) 462275

Purpose of Report

1. To review the treasury management activity and the performance against the Prudential Indicators for the 2019/20 financial year as prescribed by the CIPFA Code of Practice and in accordance with the Council's Treasury Strategy, Annual Investment Policy and Treasury Management Practices.

Recommendations

2. The Audit Committee is recommended to:
 - Note the Treasury Management Activity for the 2019/20 financial year;
 - Note the position of the individual prudential indicators for the 2019/20 financial year;
 - Note the outlook for the investment performance in 2019/20;
 - Note the Council operated within all of the Prudential Indicators during 2019/20;
 - Recommend the 2019/20 Treasury Management Activity Report to full Council.

Background

3. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, produce a six month and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The Council reports six monthly to Full Council against the strategy approved for the year. The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
4. Full Council approved the Council's 2019/20 Treasury Management Strategy on 26 February 2019. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.
5. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 26 February 2019.
6. Overall responsibility for treasury management remains with the Council. The day to day treasury management operation is delegated to the S151 Officer and is undertaken by the Finance function which is part of the Support Services directorate. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

7. This report provides information on the performance of the Council's Treasury Investments in 2019/20. The performance of the Council's Commercial Investments, which are part of the Commercial Strategy, are not included in this report.

Treasury Management Position - Summary

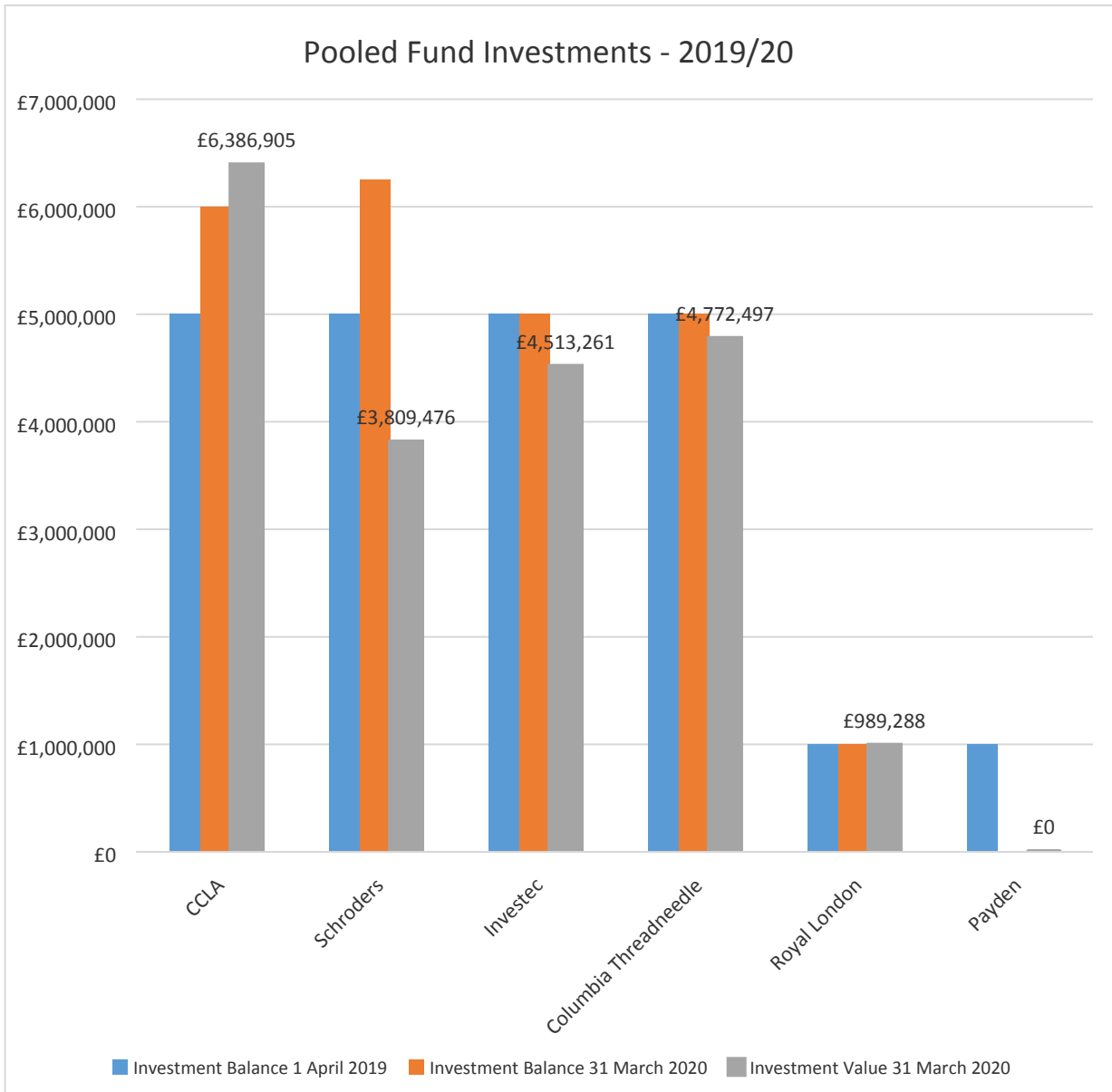
8. The treasury management position at 31st March 2020 and the change during the year is shown in the table below.

	31/3/19 Balance £m	Net Movement £m	31/3/20 Balance £m
Long-term borrowing	0.00	0.00	0.00
Short-term borrowing	-19.50	-60.00	-79.50
Total borrowing	-19.50	-60.00	-79.50
Long-term investments	3.00	-1.00	2.00
Short-term investments	4.00	4.00	8.00
Cash and cash equivalents	23.73	-1.30	22.43
Total investments	30.73	1.70	32.43
Net Position	11.23	-58.30	-47.07

9. External borrowing has increased during the year, reflecting the financing of planned capital expenditure, particularly in respect of investment property acquisition. In line with treasury advice, the Council continues to utilise short term borrowing, which is flexible and keeps our borrowing costs low. The projected value of borrowing as at 31 March 2020 was reported to Audit Committee in February 2019 in the Annual Treasury Management Strategy report.
10. The amount of external borrowing is partially dependent on the commercial property purchases that are made in the financial year, with cash flow requirements also dictating the level of borrowing. Short term borrowing continues to be the best option to meet the financing requirement, however this is kept under review to strike the appropriate balance between costs and cost certainty.
11. Ongoing dialogue is held with the Council's Treasury advisors on the best options for borrowing, the current advice being to continue to borrow short term at present. However, the Council may utilise long term borrowing in 2020/21 if it is deemed the best option, which will also remove an element of interest rate risk.

Investment Activity

12. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20, the Council's investment balance ranged between £26 million and £47 million.
13. Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
14. The Council's best performing investments in 2019/20 were the investments in the Pooled Funds (Strategic Investments). Details of the investment balance at the start and end of the financial year and the value of each investment as at 31 March 2020 is detailed in the chart below.



Note: Pooled fund investments are revalued at the end of the financial year to reflect the fair value of the investment; the third bar in the graph signifies this value and details the investment value as at 31 March 2020. The first and second bars represent the investment balance in each fund at that date.

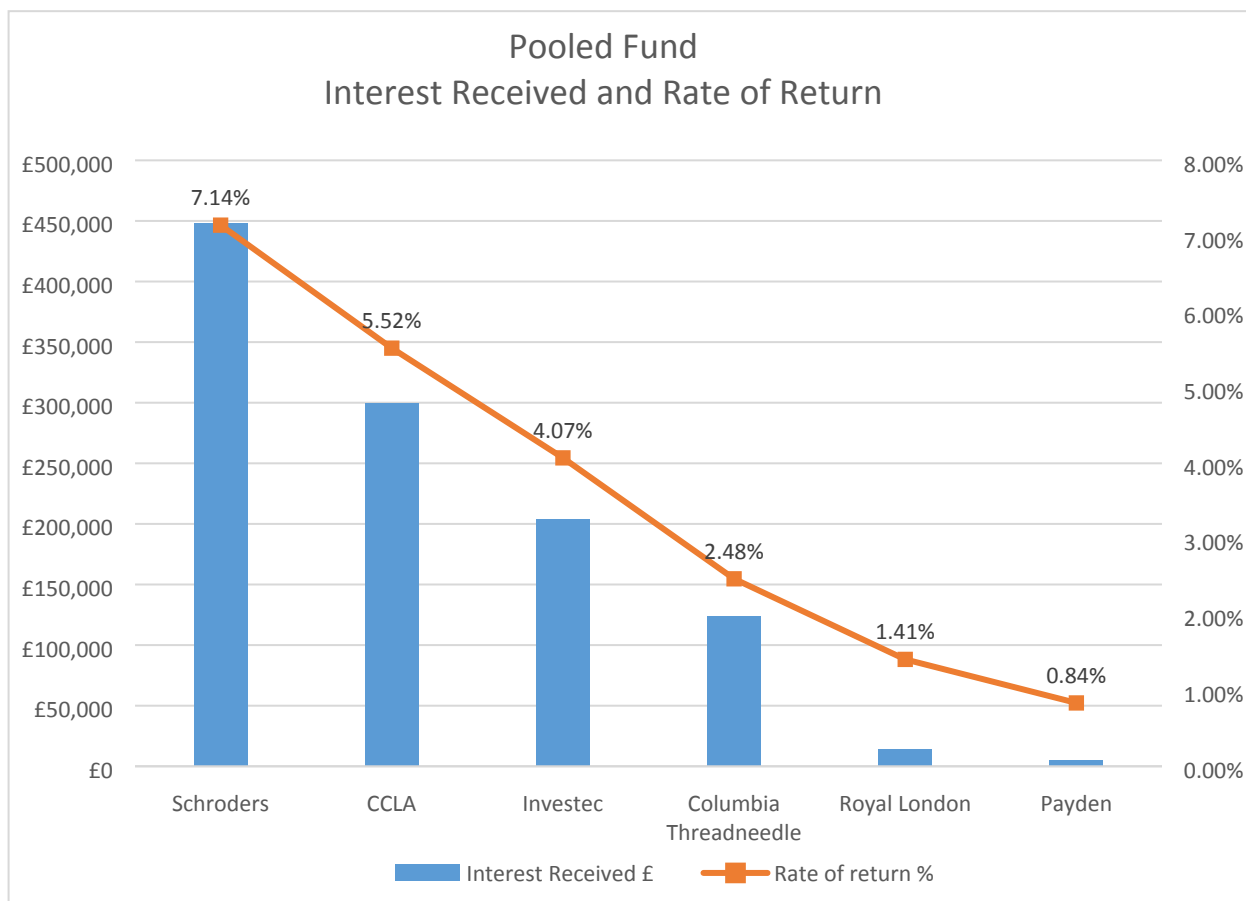
Pooled Fund Investments 2019/20

15. The table below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year end revaluation.

Investment Type	Investment Balance				Investment Value		
	01-Apr-19	31-Mar-20	Change		01-Apr-19	31-Mar-20	Change
Schroders	£5,000,000	£6,250,000	£1,250,000		£6,034,720	£3,809,476	-£2,225,244
CCLA	£5,000,000	£6,000,000	£1,000,000		£5,690,293	£6,386,905	£696,612
Investec	£5,000,000	£5,000,000	£0		£4,945,973	£4,513,261	-£432,712
Colombia Threadneedle	£5,000,000	£5,000,000	£0		£5,008,789	£4,772,497	-£236,292
Royal London	£1,000,000	£1,000,000	£0		£1,000,127	£989,288	-£10,840
Payden	£1,000,000	£0	-£1,000,000				
Total	£22,000,000	£23,250,000	£1,250,000		£22,679,902	£20,471,426	-£2,208,476

16. The Council increased its investments in pooled funds by £1.25m in 2019/20 making the investments £23.25m as at 31 March 2020. It also reviewed the performance of the Payden investment and in consultation with its treasury advisors and the S151 Officer, a decision was made to withdraw from this fund and to increase the investment in CCLA Property Fund by £1m making the CCLA investment balance £6m.
17. The Council has investments in bond, equity, multi-asset and property funds. The falls in the capital values, as demonstrated in the final column of the above table, of the underlying assets were reflected in the 31st March fund valuations with most funds registering negative capital returns over 12 months to March. Early calculations suggest that, despite decent income returns in 2019-20, these funds will post negative total return over the one-year period due to the capital component of total returns.
18. In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. Volatility measured by the VIX index was almost as high as during the global financial crisis of 2008/9 and evidenced in plummeting equity prices and the widening of corporate bond spreads, very close to rivalling those twelve years ago. Gilt yields fell but credit spreads widened markedly reflecting the sharp deterioration in economic and credit conditions associated with a sudden stagnation in economies, so corporate bonds yields (comprised of the gilt yield plus the credit spread) rose and prices therefore fell.
19. It should be noted that the £2.2m reduction in the capital value of the investments will not have an impact on the General Fund as the Council is using the alternative fair value through profit and loss (FVPL) accounting and defers the funds' fair value losses (and gains) to the Pooled Investment Fund Adjustment Account until 2023/24.
20. Strategic fund investments are made in the knowledge that capital values will move both up and down; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. The latest investment valuation (as at 31 May 2020) indicates there has been a positive movement in the value of the strategic investments to the value of 1.94% in the first two months of 2020/21.

21. The Council continues to receive regular updates on pooled fund investments from their Treasury advisors and plans are in progress to increase the frequency of meetings whilst this period of uncertainty continues.
22. The income generated from these investments in 2019/20 and the rate of return is detailed in graph and table below.



Fund	Interest Received £	Rate of return %
Schrodgers	£447,740	7.14%
CCLA	£299,916	5.52%
Investec	£204,144	4.07%
Columbia Threadneedle	£124,096	2.48%
Royal London	£14,151	1.41%
Payden	£4,880	0.84%
Total	£1,094,927	4.70%

23. Pooled funds have no defined maturity date, but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

24. In light of their strong performance and the Council's latest cash flow forecasts, investment in these funds has been increased and has proved to be successful during the 2019/20 financial year with a good return on investments achieved. The capital value of the investments has fallen but the reasons for the reduction in the capital values are known and there are positive signs that the capital value of the investments has increased in the past two months.
25. The investment strategy approved in the 2019/20 Treasury Management Strategy Statement recommended that the Council maintains its investments in the secure and higher yielding asset classes given the increasing risk and very low returns from short-term unsecured bank investments.
26. The graph above and table detailing interest received, and the rate of return on investments demonstrates that the approved policy has met the objectives of the investment strategy. It is anticipated that the level of strategic (long-term) investments will remain in the region of £25m in 2020/21, with the possibility of increasing these investments, if cash flow permits, in line with the Council's overall Financial Strategy and income generation targets.
27. The diversification into strategic investments represents a continuation of the strategy adopted in 2017/18. The Council's Treasury advisors have indicated that a maximum exposure to this investment type should be limited to £30m.
28. The revised Financial Strategy and Medium Term Financial Plan will reflect the changing economic situation as a result of Covid-19 and will incorporate any impact on Treasury Management. Any potential changes to the Treasury Management Strategy and policy due to the revised Financial Strategy and MTFP will be brought to Audit Committee.

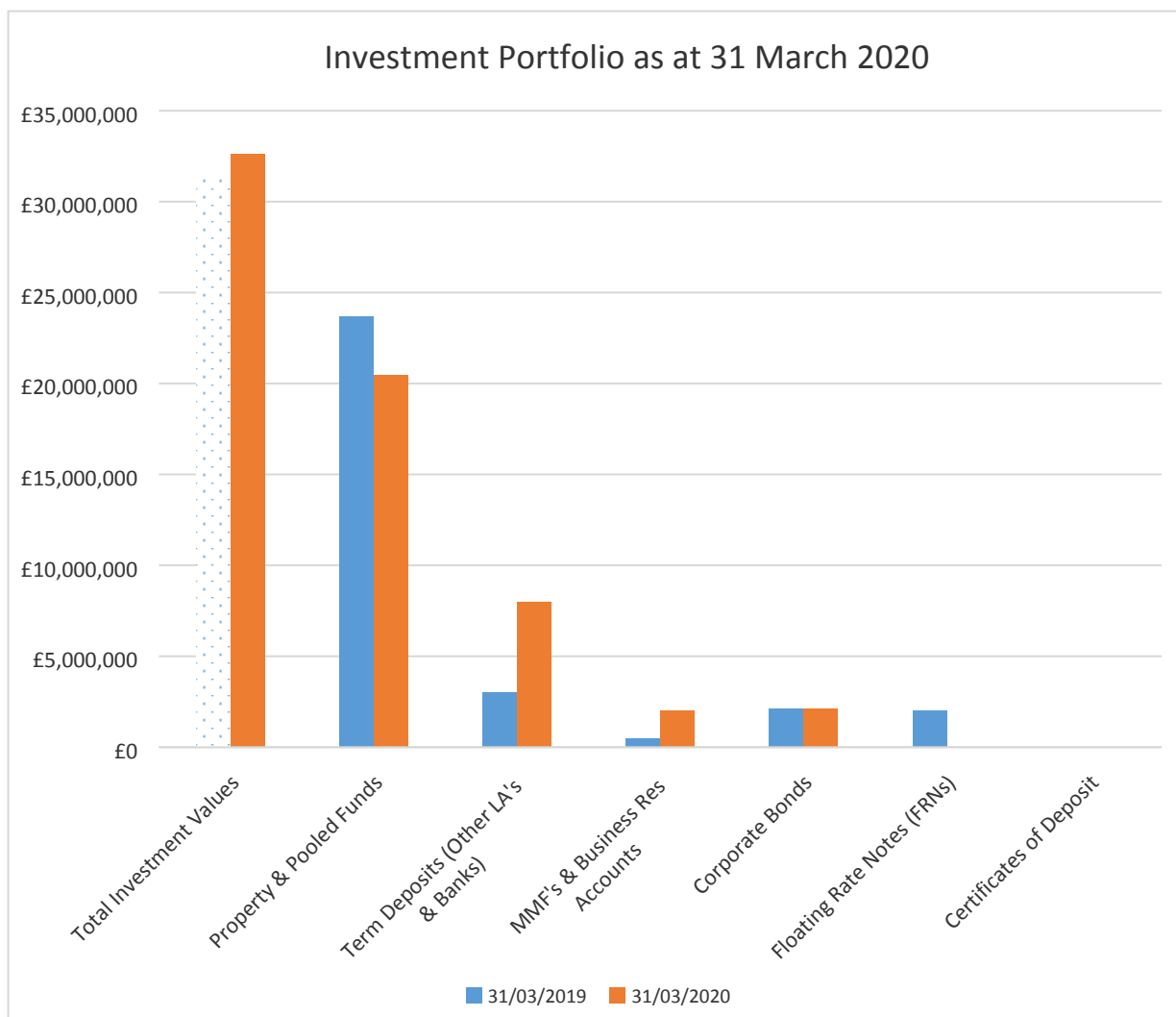
Interest Rates 2019/20

29. As detailed in the Arlingclose external context provided in Appendix A, the Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.10%.
30. The Arlingclose central case assumes the bank rate will remain at 0.10% until at least June 2023. The latest economic and interest rate forecast (May 2020) from Arlingclose states that whilst the central case assumes no change to the base rate for the foreseeable future, further cuts to the bank rate cannot be ruled out with the possibility of the rate reducing to zero or even going into negative territory.

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35

Investment Portfolio – Values and Returns

31. The graph below provides a snapshot of the Council's portfolio of investments at the end of the 2019/20 financial year, in comparison to the previous year end position.



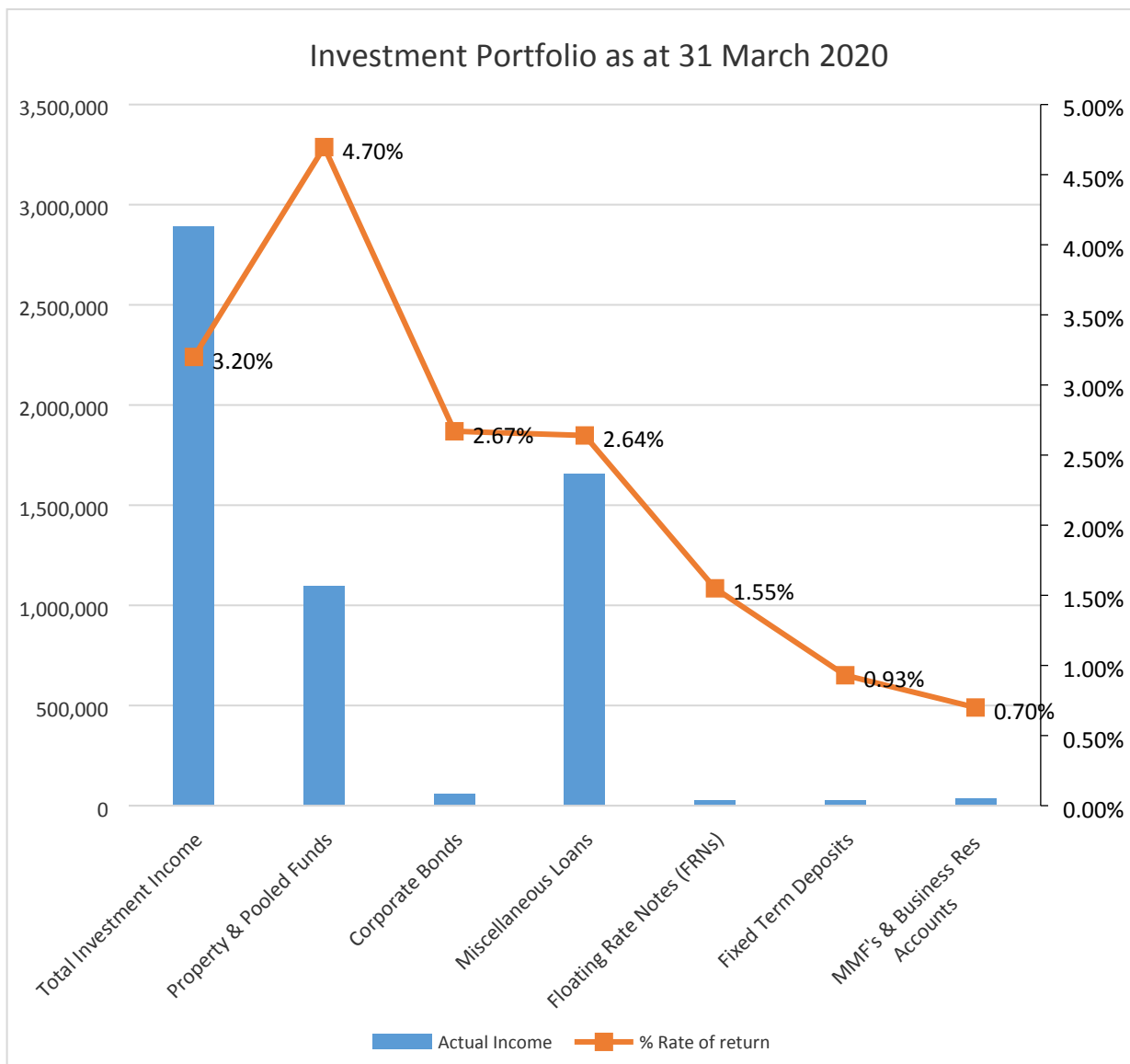
32. The table below provides additional information on the actual value of investments at the start and end of the 2019/20 financial year:

Investment type	Investment Value as at 31/03/2019	Investment Value as at 31/03/2020	Actual Income	% Rate of return
Property & Pooled Funds	23,679,635	20,471,426	1,094,928	4.70%
Money Market Funds & Business Reserve Accounts	479,810	2,000,000	33,389	0.70%
Term Deposits (Other LAs & Banks)	3,000,000	8,000,000	25,069	0.93%
Corporate Bonds	2,129,992	2,129,992	58,263	2.67%
Floating Rate Notes (FRNs)	2,006,968	0	24,731	1.55%
Total Investment Values	31,296,405	32,601,418	1,236,380	3.58%

33. The types of investment that the Council held at the 31 March 2019 and 31 March 2020 have not changed significantly. The policy of investing in higher yielding, long term strategic investments have resulted in a large portion of the Council's investment being concentrated in the pooled and property fund investment type. Pooled and property fund investments amounted to 66% of the investment portfolio as at 31 March 2020 (76% as at 31 March 2019).
34. The Council continues to work closely with Arlingclose on the investment diversification and portfolio mix, Arlingclose are comfortable with the percentage of investment that the Council holds in pooled and property funds but has suggested a maximum exposure of £30m. The Council continually monitors the performance of the property and pooled funds and is able to withdraw funds at short notice if the fund performance were to deteriorate. Equally, the Council may borrow short term to manage cash flow variations if necessary.

Returns achieved in 2019/20

35. The returns are shown in the graph and table below:



Investment type	Actual Income £	Rate of return %
Property & Pooled Funds	1,094,928	4.70%
Miscellaneous Loans	1,656,375	2.64%
Fixed Term Deposits	25,069	0.93%
Corporate Bonds	58,263	2.67%
Money Market Funds & Business Reserve Accounts	33,389	0.70%
Floating Rate Notes (FRNs)	24,731	1.55%
2019/20 Treasury Investment Income	2,892,755	3.20%
2019/20 Treasury Income Budget	1,648,920	
Surplus /(Deficit)	1,243,835	

36. The table above shows investment income for the year compared to the budget. The figures show a significant surplus over budget of £1,243,835. The original treasury management budget of £1,648,920 was derived by forecasting an average rate of return of 1.86% based on an average investment portfolio of £50m.
37. The surplus over budget is as a result of a number of factors, the main factors being:
- Additional interest received due to additional investment into long term strategic investments.
 - A new loan for service purposes has been made in year resulting in additional interest.
 - Additional interest received from commercial investments purchased in year that are not included in the 2019/20 budget
38. The outturn position is also affected by both the amount of cash we have available to invest and the interest base rate set by the Bank of England. Balances are affected by the timing of revenue and capital income and expenditure, and the collection and distribution of council tax and business rates income.

Treasury Investments

39. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20. The table below lists the investments held on 31 March 2020.

Breakdown of investments as at 31 March 2020

Date Invested	Counterparty	Nominal Amount	Rate %	Maturity Date
11 Nov 16	Northumberland County Council	1,000,000	1.00	11 Nov 20
27 Mar 20	Thurrock Council	2,000,000	1.65	17 Apr 20
27 Mar 20	Thurrock Council	3,000,000	1.65	20 Apr 20
31 Mar 20	Epping Forest District Council	2,000,000	2.00	30 Apr 20
	Corporate Bonds			
20 Oct 16	Santander UK Plc *Covered*	1,000,000	1.04	14 Apr 21
10 Nov 16	National Australia Bank *Covered*	1,000,000	1.10	10 Nov 21
	Business Reserve Accounts			
	Handelsbanken	2,000,000		
	Property & Pooled Funds			
	Royal London Cash Plus Fund	1,000,000	1.41	
	CCLA Property Fund	6,000,000	5.52	
	Investec Diversified Income Fund	5,000,000	4.07	
	Schroder Income Maximiser Fund	6,250,000	7.14	
	Colombia Threadneedle Equity Income Fund	5,000,000	2.48	
	TOTAL	35,250,000		

Note: Money Market Funds are instant access accounts so the rate displayed is a daily rate

Non-Treasury Investments

40. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Council also held 91.83m of such investments in

- Directly Owned Property - £73.60m
- Loan to Community Organisation - £0.15m
- Loan to Local Authority Partnership - £4.92m
- Loan for Commercial Activities - £13.16m

Borrowing

41. The Council's primary objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

42. The table below summarises the external borrowing position for 2019/20. It details the opening position in respect of external loans, loans repaid, new loans, the average interest rate and the year end position.

	Amount	Average Interest rate
External loans as at 1 April 2019	19,500,000	0.86%
New Loans	173,500,000	0.89%
Loans Repaid	-113,500,000	
Total External loans as at 31 March 2020	79,500,000	1.14%

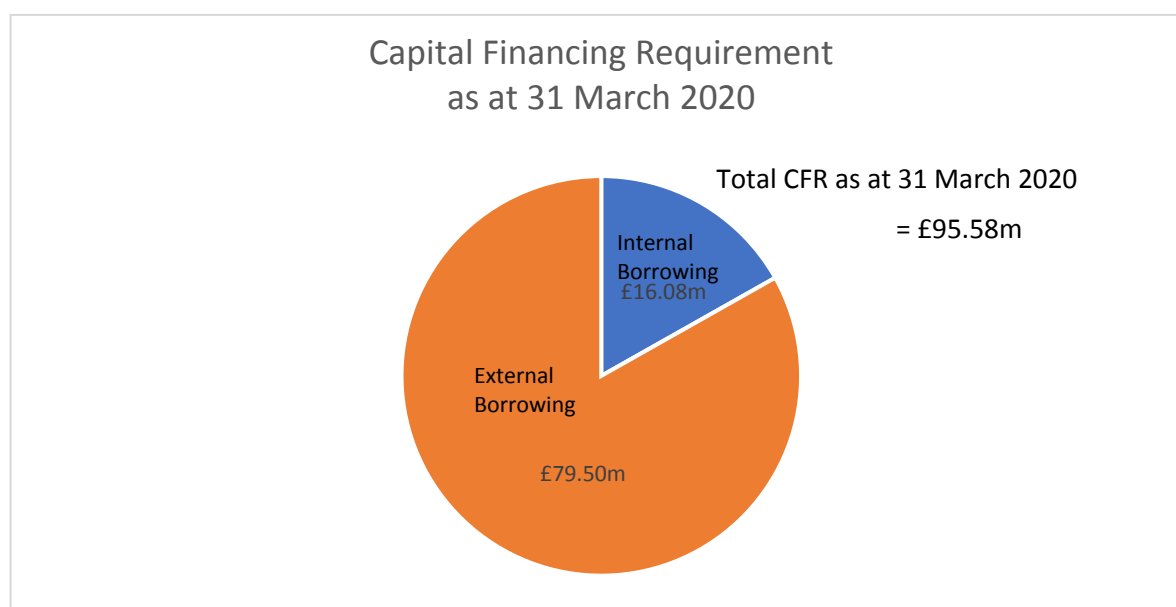
43. In keeping with these objectives, new borrowing was kept to a minimum, however external borrowing increased from £19.5m to £79.5m. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

44. Details of the borrowing are included in the table below.

Lender	Date Borrowed	Repayment Date	No of Days	Interest Rate	Amount	2019/20 Interest	Total Interest
HAMPSHIRE COUNTY COUNCIL	18/04/2019	17/04/2020	365	1.01%	5,000,000	48,286.30	50,500.00
South Yorkshire Pensions Authority	20/11/2019	20/05/2020	182	0.85%	5,000,000	15,486.30	21,191.78
COMHAIRLE NAN EILEAN SIAR	20/11/2019	20/05/2020	182	0.85%	5,000,000	15,486.30	21,191.78
STAFFORDSHIRE COUNTY COUNCIL	17/01/2020	17/04/2020	91	0.80%	5,000,000	8,219.18	9,972.60
Essex County Council	20/01/2020	17/04/2020	88	0.76%	10,000,000	14,991.78	18,323.29
East London Waste Authority	20/01/2020	20/04/2020	91	0.79%	3,000,000	4,675.07	5,908.77
City of Lincoln Council	20/01/2020	20/04/2020	91	0.78%	1,000,000	1,538.63	1,944.66
Tyne & Wear Pension Fund	20/01/2020	20/04/2020	91	0.79%	3,000,000	4,675.07	5,908.77
DUDLEY METROPOLITAN BOROUGH COUNCIL	18/02/2020	27/04/2020	69	0.82%	5,000,000	4,830.14	7,750.68
WAVERLEY BOROUGH COUNCIL	19/02/2020	17/04/2020	58	0.85%	5,000,000	4,890.41	6,753.42
Lancaster City Council	18/03/2020	20/04/2020	33	1.05%	4,000,000	1,610.96	3,797.26
North Yorkshire County Council	20/03/2020	19/03/2021	364	1.75%	5,000,000	2,876.71	87,260.27
Tendring District Council	20/03/2020	19/03/2021	364	1.75%	1,000,000	575.34	17,452.05
Greater London Authority	20/03/2020	19/03/2021	364	1.75%	6,000,000	3,452.05	104,712.33
Greater London Authority	30/03/2020	29/03/2021	364	1.75%	10,000,000	958.90	174,520.55
Gosport Borough Council	20/03/2020	20/04/2020	31	1.40%	1,500,000	690.41	1,783.56
Milton Keynes Council	27/03/2020	26/03/2021	364	1.60%	5,000,000	1,095.89	79,780.82
					Total	79,500,000	134,339
							618,753

45. With short-term interest rates remaining much lower than long-term rates, the Council considered it cost effective in the near term to use internal resources in parallel with short-term loans.
46. The Council's underlying need to borrow is defined as its 'Capital Financing Requirement (CFR)'. The CFR was £39.3 million at the beginning of 2019/20. Capital expenditure during 2019/20 was funded through a combination of capital receipts, revenue reserves, external contributions (e.g. S106 receipts) and borrowing. As a result, the borrowing requirement (CFR) has increased to £95.58 million. However, we have followed a strategy of using our cash reserves to finance this borrowing requirement in the short term – known as “internal borrowing” – as short term investment returns foregone are currently lower than longer term borrowing rates.

	£millions	%
Internal Borrowing	£16.08m	16.8%
External Borrowing	£79.50m	83.2%
Capital Financing Requirement as at 31 March 2020	£95.58m	



Treasury Management Indicators

47. The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2019/20 Target	2019/20 Actual
Portfolio average credit rating	5.0	3.19

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount [of cash available to meet unexpected payments within a rolling three-month period

	2019/20 Target	2019/20 Actual
Total cash available within 3 months	£10m	£32m

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	2019/20 Limit	2019/20 Actual
Upper limit on one-year revenue impact of a 1% <u>change</u> in interest rates	£200,000	£394,104

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	2019/20 Upper Limit %	2019/20 Lower Limit %	2019/20 Actual %
Under 12 months	100%	100%	100%
12 months and within 24 months	100%	100%	0%
24 months and within 5 years	100%	100%	0%
5 years and within 10 years	100%	100%	0%
10 years and above	100%	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Upper and lower limits are set at 100% providing full flexibility to optimise borrowing arrangements.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Price risk indicator	2019/20
Actual principal invested beyond year end	£3m
Limit on principal invested beyond year end	£50m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Prudential Indicators – 2019/20

48. In February 2019, through approval of the Treasury Management Strategy Full Council approved the Prudential Indicators for 2019/20, as required by the Prudential Code for Capital Finance in Local Authorities. The Local Government Act 2003 allows local authorities to determine their own borrowing limits provided they are affordable and that every local Council complies with the Code.

Capital Expenditure: The actual capital expenditure incurred for 2019/20 compared to the revised estimate was:

	2018/19 Outturn £'000	2019/20 Revised Estimate £'000	2019/20 Outturn £'000	2019/20 Variance £'000	Reason for Variance
Approved capital schemes	28,414	73,447	65,483	(7,964)	Timing of investment property acquisitions
Total Expenditure	28,414	73,447	65,483	(7,964)	

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	2018/19 Outturn £'000	2019/20 Revised Estimate £'000	2019/20 Outturn £'000	2019/20 Variance £'000	Reason for Variance
Financing Costs	(1,047)	(781)	(966)	(185)	Additional investment income from the Pooled Funds and interest on loans for service purposes
Net Revenue Stream	16,348	16,197	15,636	(561)	
%	(6.4%)	(4.8%)	(6.2%)	(1.4%)	

*figures in brackets denote income through receipts and reserves

The financing costs include interest payable and notional amounts set aside to repay debt less interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for the Council but is relevant since it shows the extent to which the Council is dependent on investment income.

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

	2018/19 Outturn £'000	2019/20 Original Estimate £'000	2019/20 Outturn £'000	2019/20 Variance £'000	Reason for Variance
Opening CFR	17,439	45,239	39,320	(5,919)	
Capital Expenditure	28,414	20,130	65,483	45,353	Capital schemes funded through external borrowing in 2019/20
Capital Receipts*	(4,600)	(6,177)	(6,820)	(643)	
Grants/Contributions*	(1,711)	(1,499)	(1,881)	(382)	
Minimum Revenue Provision (MRP)	(221)	(491)	(520)	(29)	MRP towards borrowing for commercial investments
Additional Leases taken on during the year	0	0	0	0	
Closing CFR	39,320	57,202	95,582	38,380	

*Figures in brackets denote income through receipts or use of revenue resources.

Total figures are rounded

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose. The Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

	2018/19 Outturn £'000	2019/20 Revised Estimate £'000	2019/20 Outturn £'000	2019/20 Variance £'000
Borrowing	19,500	50,000	79,500	29,500
Finance Leases	82	138	51	(87)
Total Debt	19,582	50,138	79,551	29,413
Capital Financing Requirement	39,320	57,202	95,582	38,380

Total debt is expected to remain below the CFR for the near future.

Credit Risk: The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Actual External Debt: This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2019	£'000
Borrowing	79,500
Other Long-term Liabilities (Finance Leases)	
- Vehicles	51
- Photocopiers	0
Total	79,551

Authorised Limit for External Debt: This limit represents the maximum amount that the Council may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A borrowing requirement was identified in year to finance the capital programme and further borrowing may be undertaken to fund the agreed plans to acquire investment properties.

	2018/19 Actual £'000	2019/20 Original Estimate £'000	2019/20 Actual £'000
Borrowing	19,500	124,000	79,500
Other Long-term Liabilities	82	1,000	51
Total	19,582	125,000	79,551

Operational Boundary for External Debt: The operational boundary sets the limit for short term borrowing requirements for cash flow and has to be lower than the previous indicator, the authorised limit for external debt.

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

The S151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	2018/19 Actual £'000	2019/20 Original Estimate £'000	2019/20 Actual £'000	2019/20 Variance £'000
Borrowing	19,500	50,000	79,500	29,500
Other Long-term Liabilities	82	800	51	(749)
Total	19,582	50,800	79,551	28,751

The operational boundary was exceeded at year end for a period of 13 days due to the current issues facing the Council in terms of cash flow uncertainty. As detailed in the previous point, the operational boundary is a management tool for in-year monitoring and it is not significant if the operational boundary is breached due to variations in cash flow, and this is not counted as a compliance failure. The S151 Officer was informed of the breach of the operational boundary.

For information the 2020-21 operational boundary has been set at £135m and the authorised limit £165m. This was approved by full Council in February 2020 as part of the Annual Capital, Investment and Treasury Management Strategy report.

Compliance

49. The Council operated within all of the Prudential Indicators during 2019/20.

Background Papers:

Treasury Management Strategy Statement 2019/20
 Prudential Indicators and MRP Statement 2019/20
 Capital Outturn 2019/20

APPENDIX A – Additional commentary from Arlinglose

External Context

Economic background: The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a \$2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some

confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit review: In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

Agenda Item 9

Audit Committee Forward Plan

Lead Officer: Becky Sanders, Case Officer (Strategy & Commissioning)

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Purpose of the Report

This report informs Members of the agreed Audit Committee Forward Plan.

Recommendation

Members are asked to comment upon and note the proposed Audit Committee Forward Plan as attached.

Audit Committee Forward Plan

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked in italics are not yet confirmed.

Background Papers: None

Audit Committee Forward Plan

Meeting Date	Item	Responsible Officer
30 July '20 (week later than normal)	Internal Audit Plan Progress Report 2020/21 - Q1	Alastair Woodland (SWAP)
	Review of Internal Audit	S151 Officer
	Financial Procedure Rules	S151 Officer
	<i>Annual Fraud Programme Update</i>	<i>TBC</i>
22 Oct '20	Approve Annual Statement of Accounts	Finance Specialist
	Annual Governance Statement	S151 Officer
	External Audit – Audit Findings Report	S151 Officer (GT)
	Internal Audit Plan Progress Report 2020/21 – Q2	Alastair Woodland (SWAP)
	Treasury Management Practices	Finance Specialist
	Treasury Management Mid-Year Performance and Strategy Update (to go on to Council)	Finance Specialist
	External Audit – Annual Audit Letter	Finance Specialist (GT)
28 Jan '21	External Audit – Certification of Housing benefit Subsidy Claim	Finance Specialist (GT)
	Internal Audit Plan Progress Report 2020/21 – Q3	Alastair Woodland (SWAP)
	Treasury Management Strategy Statement 2021/22 (to go on to Council)	Finance Specialist